

Report
of the
Examination of
MGIC Mortgage Insurance Corporation
Milwaukee, Wisconsin
As of December 31, 2002

TABLE OF CONTENTS

	Page
I. INTRODUCTION	1
II. HISTORY AND PLAN OF OPERATION	3
III. MANAGEMENT AND CONTROL	5
IV. AFFILIATED COMPANIES	7
V. REINSURANCE	16
VI. FINANCIAL DATA	17
VII. SUMMARY OF EXAMINATION RESULTS	26
VIII. CONCLUSION.....	27
IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS.....	28
X. ACKNOWLEDGMENT	29



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Jim Doyle, Governor
Jorge Gomez, Commissioner

Wisconsin.gov

August 22, 2003

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Honorable Jorge Gomez
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
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Commissioner:

In accordance with your instructions, a compliance examination has been made of the
affairs and financial condition of:

MGIC MORTGAGE INSURANCE CORPORATION
Milwaukee, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of MGIC Mortgage Insurance Corporation ("MMIC," or the
"company") was conducted in 1998 and 1999 as of December 31, 1997. The current examination
covered the intervening period ending December 31, 2002, and included a review of such 2003
transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

MGIC Mortgage Insurance Corporation was incorporated under the laws of Wisconsin on April 30, 1987. The company was established as a subsidiary of Mortgage Guaranty Insurance Company ("MGIC") to serve as a mortgage guaranty reinsurer that maintains a AAA claims paying ability rating by Standard and Poor's Corporation. By maintaining a AAA rating for its written business, MMIC is qualified to provide the MGIC group with the facility to write mortgage guaranty insurance on loans that require the insurer to be rated AAA.

The company has not reinsured new insurance risks during the past several years. The company assumed mortgage guaranty risks written on a direct basis by MGIC that were required to be rated AAA. All of the risks assumed by the company from MGIC were retroceded to a group of European reinsurers, and most of the retroceded risks were subsequently assumed by the company from the European reinsurers. MMIC has not written any direct insurance risks.

During the past several years there has been negligible demand for AAA rated policies within the mortgage lending industry. MGIC has not written AAA rated policies and MMIC has not assumed any business from MGIC since the late 1990's. MMIC's current book of business is comprised of renewals of existing policies on AAA primary individual residential mortgage loans and is effectively in run-off. The company does not have any pool business.

Prior to 1996, MMIC was a wholly owned subsidiary of MGIC. In 1996, MGIC contributed 100% of the common stock of MGIC Mortgage Insurance Corporation to MGIC Reinsurance Corporation of Wisconsin ("MRCW").

MMIC is a member of a holding company system, and ultimate ownership and control of the company is held by MGIC Investment Corporation ("MGIC Investment"). MMIC does not have any employees, and all of its business operations are performed by MGIC pursuant to an intercompany services agreement. Further discussion of the MGIC Investment Corporation holding company, description of MMIC's significant affiliates, and description of the company's intercompany agreements are included in the section of this report captioned "Affiliated Companies."

MGIC Mortgage Insurance Corporation is licensed solely in the state of Wisconsin.

The following table is a summary of the net insurance premiums written by the company in 2002. The run-off of the company's existing insurance risks is discussed in the Financial Data section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Mortgage guaranty	\$ <u>0</u>	<u>\$557,223</u>	<u>\$287,332</u>	<u>\$269,891</u>
Total All Lines	\$ <u>0</u>	<u>\$557,223</u>	<u>\$287,332</u>	<u>\$269,891</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The MGIC Mortgage Insurance Corporation board of directors consists of seven members, each of whom is elected annually from within the senior executive management of MGIC Investment Corporation. MMIC directors are elected to serve a one-year term. Each member of the MMIC board of directors also serves as a member of other boards of directors in the holding company group, and receives no additional compensation for services performed as a director of MMIC.

Currently the MMIC board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Curt S. Culver Nashotah, WI	President and Chief Executive Officer MGIC Investment Corporation	2004
John D. Fisk Kensington, MD	Executive Vice President – Strategic Planning MGIC Investment Corporation	2004
Joseph J. Komanecki Delafield, WI	Senior Vice President, Controller and Chief Accounting Officer	2004
Jeffrey H. Lane Glendale, WI	Senior Vice President, General Counsel and Secretary MGIC Investment Corporation	2004
J. Michael Lauer Elm Grove, WI	Executive Vice President and Chief Financial Officer MGIC Investment Corporation	2004
Patrick Sinks River Hills, WI	Senior Vice President – Field Operations MGIC Investment Corporation	2004
Joseph J. Ziino, Jr. Brookfield, WI	Senior Vice President – Regulatory Relations, Associate General Counsel and Assistant Secretary MGIC Investment Corporation	2004

Officers of the Company

MGIC Mortgage Insurance Corporation officers are appointed by the company's board of directors at the annual meeting of the board, and serve a one-year term of office. Senior officers serving at the time of this examination are listed below. Each MMIC officer is employed by MGIC, and a portion of the MGIC compensation costs for the respective MMIC officers is allocated to MMIC through an affiliated servicing agreement. The annual compensation paid to MMIC officers in 2002 is reported in the concurrent examination report of MGIC, under the caption "Officers of the Company."

Name	Office
Curt S. Culver	President and Chief Executive Officer
J. Michael Lauer	Executive Vice President and Chief Financial Officer
Joseph J. Komanecki	Senior Vice President, Controller and Chief Accounting Officer
Jeffrey H. Lane	Senior Vice President, General Counsel and Secretary
Joseph J. Ziino, Jr.	Senior Vice President – Regulatory Relations Associate General Counsel and Assistant Secretary
James A. Karpowicz	Vice President and Treasurer

Committees of the Board

The MMIC bylaws allow for the formation of certain committees by the board of directors. The company had established one committee of the board at the time of the examination, listed below:

Securities Investment Committee

J. Michael Lauer
Joseph J. Komanecki
Joseph J. Ziino, Jr.

IV. AFFILIATED COMPANIES

MGIC Mortgage Insurance Corporation is a member of a holding company system.

The ultimate parent of the holding company system is MGIC Investment Corporation.

The following organizational chart depicts the relationships among the affiliates in the holding company group. Each respective subsidiary is a wholly owned affiliate within the MGIC enterprise except as noted otherwise. A brief description of the significant affiliates of MMIC and a summary of significant affiliated agreements follows the organizational chart.

Organizational Chart As of December 31, 2002

- MGIC Investment Corporation
 - Mortgage Guaranty Insurance Corporation
 - MGIC Reinsurance Corporation of Wisconsin
 - MGIC Mortgage Insurance Corporation
 - MGIC Mortgage and Consumer Asset II LLC (Note #1)
 - MGIC Credit Assurance Corporation
 - MGIC Assurance Corporation
 - MGIC Assurance Corporation Segregated Account
 - MGIC Reinsurance Corporation of Vermont
 - GHR Systems, Inc. (12% ownership interest)
 - MGIC Indemnity Corporation
 - eMagic.com
 - Sherman Financial Group LLC (45.5% ownership interest)
 - Equix Financial Services LLC (70.5% ownership interest)
 - MGIC Mortgage and Consumer Asset I LLC (Note #1)
 - CMI Investors LP 5 (99% ownership interest)
 - CMI Investors LP 8 (99% ownership interest)
 - CMI Investors LP 9 (99% ownership interest)
 - CMI Investors LP 2 (99% ownership interest)
 - Credit-Based Asset Servicing & Securitization LLC (45.9% ownership interest)
 - Litton Loan Servicing LP
- MGIC Reinsurance Corporation
- MGIC Mortgage Reinsurance Corporation
- MGIC Residential Reinsurance Corporation
- MGIC Mortgage Marketing Corporation
- MGIC Investor Services Corporation
- MGIC Insurance Services Corporation
- MGIC Mortgage Securities Corporation
- MGIC OneStop Holdings LLC
 - OneStop Shop, Inc. (24% ownership interest)

Note # 1: MGIC Mortgage and Consumer Asset II LLC holds a 1% ownership interest in CMI Investors LP's; the remaining 99% interest is held in MGIC Mortgage and Consumer Asset I LLC.

MGIC Investment Corporation (“MGIC Investment”)

MGIC Investment was incorporated in Wisconsin on June 22, 1984 under the name Management Financing Corporation. MGIC Investment was established as a holding company to consolidate the ownership and capitalization of the legal entities within the MGIC enterprise. The initial capital funding of Management Financing Corporation was provided by The Northwestern Mutual Life Insurance Company and by senior executive officers of MGIC. The holding company name was changed to MGIC Investment Corporation effective March 1, 1985. An initial public offering of MGIC Investment common capital stock was completed in August of 1991, and a second public offering was completed in June 1992. The issued and outstanding shares of MGIC Investment common capital stock are traded on the New York Stock Exchange.

As of February 15, 2003, Legg Mason, Inc., an investment management company, held a 14.59% ownership interest in the outstanding MGIC Investment Corporation capital stock, and Janus Capital Management LLC held a 12.16% ownership interest in MGIC Investment. Officers and directors of MGIC Investment Corporation, who comprise 17 individual share holders, in aggregate held 1.26% ownership interest in MGIC Investment. Interests held by officers and directors included 31,085 share units held under MGIC Investment Corporation's directors' deferred compensation plan for which the holders currently do not have rights to exercise investment or voting power. Other investors, each of whom individually owned less than a 5% interest in MGIC Investment, held the remaining outstanding shares of MGIC Investment common capital stock.

The MGIC enterprise is principally engaged in writing mortgage guaranty insurance on residential mortgage loans. MGIC Investment Corporation insurance subsidiaries provide mortgage guaranty insurance to mortgage lenders, and its non-insurance operating subsidiaries provide products and services to the mortgage finance industry, including contract underwriting, mortgage portfolio analysis, secondary market mortgage brokerage and trading services, and internet-based technology services.

As of December 31, 2002, MGIC Investment's consolidated GAAP basis audited financial statements reported total assets of \$5,300,303,000, total liabilities of \$1,905,111,000,

and total shareholders' equity of \$3,395,192,000. Operations for 2002 provided reported net income of \$629,191,000.

Mortgage Guaranty Insurance Corporation ("MGIC")

MGIC was incorporated under the laws of Wisconsin on February 20, 1979 as Liberty Mortgage Insurance Corporation ("LMIC"). LMIC was originally owned by Verex Corporation and was acquired by MGIC Investment Corporation in November 1984. The name Liberty Mortgage Insurance Corporation was changed to Mortgage Guaranty Insurance Corporation on March 1, 1985, when MGIC began writing new business.

MGIC formerly had two classes of issued and outstanding common capital stock, Class A common stock and Class B common stock. MGIC Investment Corporation retained ownership of the MGIC Class B common stock, and effective September 30, 1985 contributed 100% of the MGIC Class A common stock to the former MGIC Investment subsidiary Mortgage Guaranty Reinsurance Corporation ("MGRC"). Effective May 25, 1999, MGRC was dissolved pursuant to a plan of voluntary dissolution and liquidation approved by the Wisconsin Commissioner of Insurance (the "Commissioner"). Upon the dissolution of MGRC, all 35,000 issued and outstanding shares of MGIC Class B common stock held by MGIC Investment were redeemed at a price of \$1,000 per share, and the remaining assets and liabilities of the liquidated MGRC legal entity including 100% of the MGIC Class A common capital stock transferred to MGIC Investment Corporation. MGIC's capital stock presently is comprised solely of one class of common stock, wholly owned by MGIC Investment Corporation.

MGIC issues residential mortgage guaranty insurance in 50 states, the District of Columbia, Puerto Rico, and Bermuda. MGIC serves as the lead operating company in the MGIC group, and provides administrative and managerial services to its affiliates. MGIC's direct and indirect costs incurred in providing services to its affiliates are allocated to the respective affiliates pursuant to intercompany services agreements. Excess of loss insurance coverages on risks written by MGIC are ceded to four MGIC affiliate insurers to enable MGIC to comply with statutory restrictions in some states that limit an insurer's net retention of mortgage guaranty insurance for any one risk to not more than 25% of the total indebtedness to the insured.

As of December 31, 2002, MGIC's statutory financial statements reported total admitted assets of \$5,748,861,544, total liabilities of \$4,200,854,153, and policyholders' surplus of \$1,548,007,391. Operations for 2002 provided reported net income of \$256,475,739.

MGIC Reinsurance Corporation of Wisconsin ("MRCW")

MRCW was incorporated under the laws of Wisconsin on February 15, 1996, and commenced operations on April 1, 1996. MRCW was established to provide reinsurance to MGIC for primary and pool mortgage guaranty policy liabilities in excess of 25% of the total indebtedness to the insured, for mortgage guaranty policies written in all jurisdictions except six states. MRCW assumes all of its business from MGIC, and does not cede any business.

As of December 31, 2002, MRCW's statutory financial statements reported total admitted assets of \$648,397,711, total liabilities of \$200,721,132, and policyholder's surplus of \$447,676,579. Operations for 2002 provided reported net income of \$27,646,621.

MGIC Credit Assurance Corporation ("MCAC")

MCAC was organized under the laws of Wisconsin on April 30, 1997, and commenced business on May 21, 1997. MCAC is a wholly owned subsidiary of MGIC, and was established to write mortgage guaranty insurance for lenders in certain states on second mortgages and home equity lines of credit. MCAC commenced writing direct business in 1998, and terminated writing new business effective January 1, 2002. MCAC's current portfolio of insurance risks consists solely of renewal business on existing policies, and MCAC's entire book of business is in run-off.

As of December 31, 2002, MCAC's statutory financial statements reported total admitted assets of \$36,120,251, total liabilities of \$14,915,547, and policyholder's surplus of \$21,204,704. Operations for 2002 resulted in a reported net loss of \$5,573,957.

MGIC Assurance Corporation ("MAC")

MAC was organized under the laws of Oklahoma in 1937 under the name Insurers Indemnity and Insurance Company, and was subsequently renamed Financial Security Assurance, Inc. of Oklahoma ("FSAOK"). FSAOK was acquired by MGIC in 1995, and effective

November 18, 1996, MAC redomesticated to Wisconsin and adopted the name MGIC Assurance Corporation.

MAC established a segregated account in 1997 pursuant to the requirements of s. 611.24 (1), Wis. Statutes and s. Ins 3.09 (12)(g), Wis. Adm. Code, through which MAC is authorized to conduct junior lien guaranty insurance business. MAC commenced writing insurance on second mortgages and home equity lines of credit in 1997. MAC terminated writing new business effective January 1, 2002. MAC's current portfolio of insurance risks consists solely of renewal business on existing policies written through the segregated account, and MAC's entire book of business is in run-off.

In 1997, all of the issued and outstanding capital stock of MAC was contributed to the MGIC subsidiary insurer MGIC Surety Corporation ("Surety"). MGIC Surety Corporation was merged with and into MGIC effective November 30, 2002. Upon the merger of Surety, the assets and liabilities of MGIC Surety Corporation, including 100% of the issued and outstanding capital stock of MAC, transferred to MGIC.

As of December 31, 2002, MAC's statutory financial statements reported total admitted assets of \$35,284,592, total liabilities of \$12,516,380, and policyholder's surplus of \$22,768,212. Operations for 2002 produced net income of \$232,734.

MGIC Reinsurance Corporation of Vermont ("MRCV")

MRCV was established in December 1999 as a Vermont-domiciled insurer, to operate as a sponsored captive insurance company pursuant to Title 8, Chapter 141 of the State of Vermont Statutes. The Vermont Statutes permit a licensed insurer and participating sponsors to establish a sponsored captive reinsurance company to reinsure business written by the licensed insurer. MRCV reinsures MGIC mortgage guaranty risks on loans that were originated, purchased, or serviced by mortgage lenders which participate in MRCV captive reinsurance. For the business assumed by MRCV on behalf of a participating sponsor, MRCV establishes a protected cell account in which assets of each such participant are separately maintained and accounted for with respect to the participant's liabilities for mortgage guaranty risks assumed by the participant. A separate participation agreement is established between MRCV and each

respective participant. By establishing a participation agreement with MRCV, a lender which desires to engage in captive reinsurance is enabled to participate as a sponsored captive and is not required to establish a separate insurance or reinsurance legal entity. As of year-end 2002, MRCV had nine participation agreements in effect.

As of December 31, 2002, MRCV's statutory financial statements reported total admitted assets of \$3,971,536, including \$1.3 million of trust assets, total liabilities of \$1,073,387, and policyholder's surplus of \$2,898,149. Operations for 2002 produced net income of \$776,615.

MGIC Indemnity Corporation ("MIC")

MGIC Indemnity Corporation is a Wisconsin-domiciled mortgage guaranty insurer originally incorporated in Wisconsin in 1956 under the name Mortgage Guaranty Insurance Corporation ("Old MGIC"). Old MGIC was a subsidiary of the former MGIC Investment Corporation ("Old MGIC Investment," the pre-1985 MGIC Investment Corporation). Ownership of Old MGIC Investment and its subsidiaries including Old MGIC was purchased by Baldwin-United Corporation ("Baldwin") in 1982. Baldwin became financially impaired in 1983 due in part to excess corporate debt, and filed petition for voluntary reorganization under Chapter 11 of the Federal Bankruptcy Code.

In 1984 the Commissioner approved a plan (the "Plan") whereby the ongoing successful business enterprise of Old MGIC could be protected from the bankruptcy of Baldwin and be continued in a successor legal entity. Pursuant to the Plan, effective February 28, 1985 the business operations of Old MGIC were transferred to a successor insurer named Mortgage Guaranty Insurance Corporation (the present-day MGIC), Old MGIC changed its name to Wisconsin Mortgage Assurance Corporation ("WMAC"), and WMAC entered into court-ordered liquidation proceedings under the supervision of the Commissioner.

Under the 1985 liquidation proceedings, WMAC discontinued issuance of new insurance business, its existing book of business entered run-off status managed by the present day MGIC, and 100% of WMAC's existing net retained liability for insurance risks was ceded to a group of international reinsurers under quota share reinsurance treaties. In December 1998, the WMAC liquidation proceedings were terminated and WMAC entered rehabilitation proceedings.

Mortgage Guaranty Insurance Corporation (the present-day MGIC) purchased WMAC as of December 31, 1998 under a plan of rehabilitation approved by the Commissioner. WMAC changed its name to MGIC Indemnity Corporation effective June 1, 2000. MIC has not written any new business since 1985, and its entire portfolio of business is comprised of renewal policies in run-off. All claims have been paid by WMAC or its reinsurers, and only a small amount of insurance inforce remains in run-off.

As of December 31, 2002, MIC's statutory financial statements reported total admitted assets of \$20,154,586, total liabilities of \$273,834, and policyholder's surplus of \$19,880,752. Operations for 2002 provided reported net income of \$646,092.

eMagic.com, LLC ("eMagic")

eMagic.com, LLC was organized in February 2000 to provide business-to-business interactive electronic services to the mortgage finance industry. eMagic products and services provide an internet technological facility to lenders, mortgage service providers, and other mortgage institutions, to access wholesaler/investor products and vendor services that pertain to the origination of mortgage loans.

As of December 31, 2002, eMagic.com, LLC's GAAP basis financial statements reported total admitted assets of \$1,753,000, total liabilities of \$1,148,000, and members' equity of \$604,000. Operations for 2002 resulted in a reported net loss of \$10,577,000.

Credit-Based Asset Servicing & Securitization LLC ("C-BASS")

C-BASS is a joint venture in which MGIC had a 45.9% ownership interest as of year-end 2002. The venture was formed in July 1996 to engage in the acquisition and resolution of delinquent or otherwise credit sensitive single family mortgage loans. C-BASS purchases, sells, and securitizes residential mortgage loans, seller-financed notes, mortgage-backed securities, and other asset-backed debt securities.

As of December 31, 2002, C-BASS's GAAP basis audited financial statements reported total assets of \$1,754,392,000, total liabilities of \$1,384,855,000, and owners' equity of \$369,537,000. Operations for 2002 provided reported net income of \$138,335,000.

MGIC Reinsurance Corporation (“MGIC Re”)

MGIC Re was incorporated under the laws of Wisconsin on February 21, 1985, and commenced business on March 1, 1985. MGIC Re was organized to provide the affiliated company MGIC with excess of loss reinsurance coverage. MGIC Re provides reinsurance to MGIC on primary and pool mortgage guaranty coverage in excess of 25% of the total indebtedness to the insured, on business written in six states. MGIC Re assumes all of its business from MGIC.

As of December 31, 2002, MGIC Re’s statutory financial statements reported total admitted assets of \$167,387,887, total liabilities of \$108,714,843, and policyholder’s surplus of \$58,673,044. Operations for 2002 provided reported net income of \$5,983,955.

MGIC Mortgage Reinsurance Corporation (“MMRC”)

MMRC was organized under the laws of Wisconsin on July 1, 1996, and commenced business activity on that date. MMRC was organized to provide the affiliated company MGIC with excess of loss reinsurance coverage. MMRC provides reinsurance to MGIC on mortgage guaranty primary and pool coverage in excess of 25% of the total indebtedness to the insured on business written in six states. MMRC’s reinsurance on any loan is limited to a maximum of 25% of the total indebtedness to the insured. MMRC assumes all of its business from MGIC, and does not cede any business.

As of December 31, 2002, MMRC’s statutory financial statements reported total admitted assets of \$16,101,360, total liabilities of \$2,088,409, and policyholder’s surplus of \$14,012,951. Operations for 2002 provided reported net income of \$1,159,246.

MGIC Residential Reinsurance Corporation (“MRRC”)

MRRC was organized under the laws of Wisconsin on July 1, 1996, and commenced business on that date. MRRC was organized to provide the affiliated company MGIC with excess of loss reinsurance coverage. MGIC Residential Reinsurance Corporation provides reinsurance to MGIC on mortgage guaranty primary and pool coverage in excess of 25% of the total indebtedness to the insured on business written in six states. MRRC reinsurance on any loan is

limited to a maximum of 25% the total indebtedness to the insured. MRRC assumes all of its business from MGIC and does not cede any of its business.

As of December 31, 2002, MRRC's statutory financial statements reported total admitted assets of \$15,925,334, total liabilities of \$2,070,188, and policyholder's surplus of \$13,855,146. Operations for 2002 provided reported net income of \$1,085,987.

Affiliated Agreements

1. 1986 Tax Sharing Agreement – The MGIC enterprise maintains a Tax Sharing Agreement whereby MGIC Investment Corporation and specified subsidiaries that qualify under the Internal Revenue Code join in filing a consolidated federal income tax return. Tax benefit or liability attributed to each respective legal entity under the consolidated income tax return is based on the amount of benefit or liability that would otherwise be applicable if the respective legal entity filed a separate United States Corporation Income Tax Return. For purposes of income tax sharing, each subsidiary computes its own income on a separate company basis, and each computes its own respective taxes by applying on a separate company basis the provisions of the Internal Revenue Code. The Tax Sharing Agreement is amended from time-to-time as necessary to add or delete the participation of applicable affiliated entities, and currently provides that each of the Wisconsin-domiciled MGIC insurers is a participant in the agreement.
2. 1996 Servicing Agreement – MGIC maintains a Servicing Agreement under which MGIC performs management and administrative services for the benefit of various affiliates within the MGIC holding company. Services provided by MGIC to its affiliates include provision of office space and employees; administration of underwriting, risk management and claims; performance as agent for funds collection and disbursement; maintenance of investment portfolios and execution of investment transactions; maintenance of depository accounts; maintenance of books and records including financial records; and the preparation and delivery of reports, tax returns, and documents and filings as required. MGIC's direct costs and indirect expenses incurred in providing services to the individual affiliates are allocated to the respective affiliates. The Servicing Agreement is amended from time-to-time as necessary to add or delete the participation of applicable affiliated entities, and currently provides that each of the Wisconsin-domiciled MGIC insurers is a participant in the agreement.

V. REINSURANCE

The reinsurance portfolio and strategy of MGIC Mortgage Insurance Corporation is described below. The company's reinsurance contracts contained proper insolvency provisions.

All of MMIC's business is derived from reinsurance assumption of residential mortgage guaranty insurance risks that are written on a direct basis by MGIC. MMIC was created and its reinsurance contracts are structured so as to enable the MGIC group to insure residential mortgage loans attached to AAA-rated securities. MMIC assumes risks written on a direct basis by MGIC on business for which the insured requires that the insurer have a AAA rating.

Pursuant to the company's reinsurance treaties, MMIC assumes 100% of the liability under policies issued by MGIC that require a AAA rating, then retrocedes 100% of the liability to a group of foreign reinsurers under three ceding agreements. For insurance policies issued prior to 1994, MMIC ceded a 93% interest and a 7% interest pursuant to 2 ceding treaties, and re-assumes a 93% portion of its ceded risks. The pre-1994 treaties are in run-off. For policies effective on or after January 1, 1994, MMIC cedes 100% of the risk to one foreign reinsurer, and re-assumes 100% of its retroceded risks.

The mortgage lending industry has de-emphasized requirements for AAA rated insurance during the past decade, and MGIC has not insured and MMIC has not assumed new AAA rated business during the past several years. The MGIC group does not anticipate resumption of new AAA rated business given the prevailing absence of mortgage lender market demand for AAA rated insurance. The reinsurance treaties applicable to AAA rated business between MGIC and MMIC, and the 1994 treaty between MMIC and the foreign reinsurer, remain in effect among the respective parties; however, the treaties currently apply solely to renewal policy transactions and are inactive with regard to new business issuance.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 2002, annual statement to the Commissioner of Insurance. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System ("IRIS") ratio results for the period under examination, and the minimum policyholder position calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

MGIC Mortgage Insurance Corporation
Assets
As of December 31, 2002

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$75,822,464	\$ 0	\$75,822,464
Stocks:			
Common stocks	31,507		31,507
Cash	761,952		761,952
Other invested assets	1,787,014		1,787,014
Agents' balances or uncollected premiums:			
Premiums and agents' balances in course of collection	85,249		85,249
Federal and foreign income tax recoverable and interest thereon	40,261		40,261
Interest, dividends, and real estate income due and accrued	<u>1,050,818</u>	<u> </u>	<u>1,050,818</u>
Total Assets	<u>\$79,579,265</u>	<u>\$ 0</u>	<u>\$79,579,265</u>

MGIC Mortgage Insurance Corporation
Liabilities, Surplus, and Other Funds
As of December 31, 2002

Losses		\$11,225,975
Loss adjustment expenses		26,523
Commissions payable, contingent commissions, and other similar charges		(1,744)
Federal and foreign income taxes		36,822
Unearned premiums		161,653
Ceded reinsurance premiums payable (net of ceding commissions)		39,930
Amounts withheld or retained by company for account of others		5
Payable to parent, subsidiaries, and affiliates		<u>23,161</u>
Total Liabilities		11,512,325
Common capital stock	\$ 2,000,000	
Gross paid in and contributed surplus	38,454,994	
Unassigned funds (surplus)	<u>27,611,946</u>	
Surplus as Regards Policyholders		<u>68,066,940</u>
Total Liabilities and Surplus		<u>\$79,579,265</u>

MGIC Mortgage Insurance Corporation
Summary of Operations
For the Year 2002

Underwriting Income

Premiums earned		\$ 365,377
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Deductions:

Losses incurred	\$(119,603)	
Loss expenses incurred	(507)	
Other underwriting expenses incurred	293,175	
Write-ins for underwriting deductions:		
Contingency reserve contribution less withdrawal	<u>(498,919)</u>	
Total underwriting deductions		<u>(325,854)</u>

Net underwriting gain		691,231
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Investment Income

Net investment income earned	3,610,712	
Net realized capital gains	<u>1,280,929</u>	
Net investment gain		<u>4,891,641</u>

Net income (loss) after dividends to policyholders but before federal and foreign income taxes		5,582,872
Federal and foreign income taxes incurred		<u>1,047,000</u>

Net Income		<u>\$4,535,872</u>
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MGIC Mortgage Insurance Corporation
Cash Flow
For the Year 2002

Premiums collected net of reinsurance		\$ 310,215
Deduct:		
Loss and loss adjustment expenses paid (net of salvage or subrogation)		(5,804)
Underwriting expenses paid		<u>293,175</u>
Cash from underwriting		22,844
Net investment income		3,664,530
Other income (expenses):		
Net amount withheld or retained for account of others		(1)
Deduct:		
Federal income taxes paid		<u>1,044,075</u>
Net cash from operations		\$2,643,298
Proceeds from investments sold, matured, or repaid:		
Bonds	\$29,710,963	
Other invested assets	<u>227,397</u>	
Total investment proceeds		\$29,938,360
Cost of investments acquired (long-term only):		
Bonds	32,553,706	
Other invested assets	<u>5,670</u>	
Total investments acquired		<u>32,559,376</u>
Net cash from investments		(2,621,016)
Cash provided from financing and miscellaneous sources:		
Surplus notes, capital and surplus paid in	(221,727)	
Net transfers from affiliates	<u>5,328</u>	
Net cash from financing and miscellaneous sources		<u>(216,399)</u>
Net change in cash and short-term investments		(194,117)
Reconciliation		
Cash and short-term investments, December 31, 2001		<u>956,069</u>
Cash and short-term investments, December 31, 2002		<u>\$ 761,952</u>

**MGIC Mortgage Insurance Corporation
Policyholder Position Calculation
December 31, 2002**

Surplus as regards policyholders		\$68,066,940
Contingency reserve		<u>10,609,162</u>
Total policyholders position		78,676,102
Net minimum policyholders' position		
Individual loans:		
Loan-to-value more		
than 75%	\$654,469	
Minimum policyholder position		<u>654,469</u>
Excess of total policyholders' position		
over minimum policyholders' position		<u>\$78,021,633</u>

**MGIC Mortgage Insurance Corporation
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2002**

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	1998	1999	2000	2001	2002
Surplus, beginning of year	\$46,837,902	\$50,713,310	\$53,639,682	\$58,834,623	\$63,238,295
Net income	3,239,401	3,576,929	3,711,319	3,884,809	4,535,872
Net unrealized capital gains or (losses)	1,760	(4,045)	287,075	519,575	423,925
Change in net deferred income tax				(7,000)	8,000
Change in provision for reinsurance	634,247	(646,512)	319,827	244,110	82,575
Cumulative effect of changes in accounting principles				(37,822)	
Surplus adjustments:					
Paid in			876,720	(200,000)	(221,727)
Surplus, end of year	<u>\$50,713,310</u>	<u>\$53,639,682</u>	<u>\$58,834,623</u>	<u>\$63,238,295</u>	<u>\$68,066,940</u>

**MGIC Mortgage Insurance Corporation
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2002**

The company's NAIC Insurance Regulatory Information System ("IRIS") results for the years under examination are summarized in the following table. The unusual IRIS results during the period are denoted with asterisks, and are discussed following the table of IRIS data.

Ratio	1998	1999	2000	2001	2002
#1 Gross Premium to Surplus	5%	3%	2%	1%	1%
#2 Net Premium to Surplus	2%	2%	1%	1%	0%
#3 Change in Net Writings	(33)%	(30)%	(22)%	(41)% *	(34)% *
#4 Surplus Aid to Surplus	1%	0%	0%	0%	0%
#5 Two-Year Overall Operating Ratio	(25)%	(142)%	(281)%	(435)%	(777)%
#6 Investment Yield	6%	5%	5%	5%	5%
#7 Change in Surplus	8%	6%	10%	7%	8%
#8 Liabilities to Liquid Assets	22%	20%	18%	16%	15%
#9 Agents' Balances to Surplus	0%	0%	0%	0%	0%
#10 One-Year Reserve Devel. to Surplus	(3)%	(2)%	(1)%	(1)%	(1)%
#11 Two-Year Reserve Devel. to Surplus	(3)%	(4)%	(3)%	(2)%	(1)%
#12 Estimated Current Reserve Def. To Surplus	(9)%	(10)%	(9)%	(8)%	(7)%

IRIS ratio number 3 evaluates the year-to-year change in an insurer's net written premium. The company's unusual results in 2001 and 2002 reflect the company's cessation of writing new business and the run-off of its existing business. Mortgage risk in-force, which was \$184 million in 2000, decreased to \$111 million in 2001 and decreased to \$82 million in 2002.

Run-off of MGIC Mortgage Insurance Corporation

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
1998	\$64,539,302	\$13,825,992	\$50,713,310	\$3,239,401
1999	67,123,264	13,483,582	53,639,682	3,576,929
2000	71,865,201	13,030,578	63,834,623	3,711,319
2001	75,570,846	12,332,551	63,238,295	3,884,809
2002	79,579,265	11,512,325	68,066,940	4,535,872

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
1998	\$2,603,405	\$1,259,616	\$1,667,544	3.3%	121.3%	124.6%
1999	1,831,909	886,740	1,126,732	(44.8)	117.0	72.2
2000	1,432,234	693,101	813,893	(13.0)	113.3	100.3
2001	845,650	409,764	559,870	(16.8)	87.2	70.4
2002	557,223	269,891	365,377	(32.9)	(76.2)	(109.1)

Annual net contingency reserve contributions, required due to annual changes in premiums written, are included in the expense ratio calculations reported above, and contributed to the expense ratios experienced by the company in the years under examination.

MMIC has not written new business during the past several years, as the mortgage lending industry has de-emphasized previous requirements for mortgage guaranty insurance to be written by AAA rated insurers. Decreased premium income reported in the company's financial data for the past five-years reflects the company's cessation of writing new insurance policies and the run-off of its existing book of business. MMIC's insured risks in force and annual premium revenues are decreasing from year-to-year as existing insured mortgages mature and as insured lenders terminate or non-renew insurance coverages. Company management does not anticipate a resumption of the company writing new business, due to the absence of industry market demand for AAA rated insurance products. The favorable incurred losses from 1999 through 2002 reflect reduction of loss reserve liabilities for policies that expired or terminated in the respective years and for which the company had recorded incurred loss expense and IBNR loss liability in previous years.

Reconciliation of Surplus per Examination

The examination did not make any reclassification of or adjustment to year-end balances reported by the company. The company's surplus as regards policyholders as of December 31, 2002 was \$68,066,940.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were two specific comments and recommendations in the previous examination report. Comments and recommendations contained in the previous examination report and actions taken by the company are as follows:

1. Management and Control — It is recommended that the company's board of directors review executive decisions made on behalf of the company by the parent corporation, and that the board exercise its responsibility to manage the company by taking action on those decisions, by resolution of the company's board of directors.

Action — Compliance

2. Custody of Invested Assets — It is recommended that the company's custodial agreements expressly provide for the fiduciary obligations of the custodian, to provide that the custodian shall be obligated to indemnify the company for any loss of property of the company that is held in the custodian's custody, for loss arising from the negligence or dishonesty of the custodian's officers or employees, or for loss due to burglary, holdup, theft, or mysterious disappearance, including loss by damage or destruction. It is further recommended that the custodial agreements provide that in the event of a loss of securities for which the custodian is obligated to indemnify the company, the securities or the value of the securities at the time of the loss occurrence shall be promptly replaced, and that the value of any loss of rights or privileges resulting from said loss shall be promptly replaced.

Action — Compliance

Summary of Current Examination Results

The current examination did not result in any findings of material exception, and did not result in any recommendations requiring company action or compliance.

VIII. CONCLUSION

MGIC Mortgage Insurance Corporation was incorporated under the laws of Wisconsin on April 30, 1987. MMIC was established to be an insurer that maintains a Standard and Poor's Corporation AAA rating, to enable the MGIC group to write mortgage guaranty insurance on loans that require the insurer to be rated AAA. Prior to 1996, MMIC was a wholly owned subsidiary of MGIC. MGIC contributed 100% of the common capital stock of MMIC to MGIC Reinsurance Corporation of Wisconsin in 1996. The company is licensed solely in Wisconsin.

MMIC has not reinsured new AAA rated risks for the past several years, and its book of business consists of renewals of existing policies. MMIC acquired all of its existing business from assumption of mortgage guaranty risks that were written on a direct basis by MGIC. MMIC assumed 100% of the liability for policies issued by MGIC that required a AAA rating, and retroceded 100% of the liability to foreign reinsurers which then ceded back to MMIC 100% or 93% of the assumed liability, depending on the applicable reinsurance treaty. The company has one current reinsurance treaty that covers risks written after January 1, 1994, and the company's pre-1994 treaties are in run-off.

During the past several years, MGIC has not written and MMIC has not assumed new AAA rated risks. The inactivity of the MGIC companies regarding issuance of new AAA rated coverages is due to a general de-emphasis of requirements for AAA rated insurance within the mortgage lending industry during the past decade. The MGIC group does not anticipate resumption of writing new AAA rated business. The reinsurance treaties applicable to AAA rated business that presently are in effect between MGIC and MMIC, and MMIC's 1994 treaty with the foreign reinsurer, are expected to remain active solely for policy renewal transactions.

The examination determined that the company is in compliance with the two recommendations that resulted from the previous examination of the company. The current examination did not result in any findings of material exception, and did not result in reclassification of account balances or adjustment to surplus. As of December 31, 2002, the company reported admitted assets of \$79,579,265, total liabilities of \$11,512,325, and total surplus as regards policyholders of \$68,066,940.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

The current examination did not result in any findings of material exception, and did not result in any recommendations requiring company action or compliance.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Rebecca Easland	Insurance Financial Examiner
Ryan Hanson	Insurance Financial Examiner
Tom M. Janke	Insurance Financial Examiner
Russell Lamb	Insurance Financial Examiner
Randy Milquet	Insurance Financial Examiner—Advanced

Respectfully submitted,

Thomas E. Rust
Examiner-in-Charge